17-C-99222

THE URBAN INSTITUTE

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Morton Grant
Vice President and Controller

Direct Dial:
(202) 857-8711

7-1-92

92-213

June 24, 1992

Ms. Judith L. Norris
Health Care Financing Administration
Office of Acquisition and Grants
Grants Management Staff
364 East High Rise Building
6325 Security Boulevard
Baltimore, MD 21207

RE: HCFA-17-C-99222
(U.I. Project # 3839)

Dear Ms. Norris:

Enclosed are an original and two copies of our final progress report on the above referenced cooperative agreement. Also enclosed is our final SF-269 which covers the period 6/15/88 through 9/30/91.

Any questions of a substantive nature should be addressed to Stephen Zuckerman at (202) 857-8679. Contractual matters may be discussed with Alexandra M. Ferguson at (202) 857-8710 or with me.

Sincerely,

H. Morton Grant

H. Morton Grant

Enclosures

HMG/sz

FINANCIAL STATUS REPORT

(Short Form)

(Follow instructions on the back)

1. Federal Agency and Organizational Element to Which Report is Submitted Health Care Financing Administration	2. Federal Grant or Other Identifying Number Assigned By Federal Agency 17-C-99222/3-01	OMB Approval No. 0348-0039	Page 1	of 2 pages

3. Recipient Organization (Name and complete address, including ZIP code)

The Urban Institute
2100 M Street, N.W.
Washington, D.C. 20037

4. Employer Identification Number 52-0880375	5. Recipient Account Number or Identifying Number 3839	6. Final Report ☒ Yes ☐ No	7. Basis ☐ Cash ☒ Accrual

8. Funding/Grant Period *(See Instructions)* From: (Month, Day, Year) 6/15/88	To: (Month, Day, Year) 9/30/91	9. Period Covered by this Report From: (Month, Day, Year) 6/15/88	To: (Month, Day, Year) 9/30/91

10. Transactions:	I Previously Reported	II This Period	III Cumulative
a. Total outlays	-0-	$339,483.38	$339,483.38
b. Recipient share of outlays	-0-	652.38	652.38
c. Federal share of outlays	-0-	338,831.00	338,831.00
d. Total unliquidated obligations			-0-
e. Recipient share of unliquidated obligations			-0-
f. Federal share of unliquidated obligations			-0-
g. Total Federal share *(Sum of lines c and f)*			338,831.00
h. Total Federal funds authorized for this funding period			338,831.00
i. Unobligated balance of Federal funds *(Line h minus line g)*			-0-

11. Indirect Expense

a. Type of Rate *(Place "X" in appropriate box)* ☐ Provisional ☐ Predetermined ☐ Final ☐ Fixed

b. Rate	c. Base	d. Total Amount	e. Federal Share
See attached		$123,145.39	$123,145.39

12. *Remarks: Attach any explanations deemed necessary or information required by Federal sponsoring agency in compliance with governing legislation.*

13. Certification: **I certify to the best of my knowledge and belief that this report is correct and complete and that all outlays and unliquidated obligations are for the purposes set forth in the award documents.**

Typed or Printed Name and Title H. Morton Grant, Vice President & Controller	Telephone (Area code, number and extension) (202)857-8711
Signature of Authorized Certifying Official HMorton Grant	Date Report Submitted January 16, 1992

Previous Editions not Usable

Standard Form 269A (REV 4-88)
Prescribed by OMB Circulars A-102 and A-110

U.S.Dept of Health & Human Services
Health Care Financing Administration
Grant No.17-C-99222/3-01
The Urban Institute Project No.3839

Report of Grant Expenditures
June 15,1988 - September 30,1991

Cost Category	1988	1989	1990	1991	Total
Salaries	$5,171.57	$53,224.45	$59,869.53	$10,317.69	$128,583.24
Fringe Benefits	1,866.94	20,065.62	23,838.28	4,075.49	49,846.32
Consultant-Onsite	0.00	164.50	0.00	0.00	164.50
A-Total Personnel	7,038.51	73,454.57	83,707.81	14,393.18	178,594.06
Other Direct Costs	1,322.60	17,605.03	14,157.06	4,659.24	37,743.93
B-Total Direct Costs	8,361.11	91,059.60	97,864.87	19,052.42	216,337.99
C-Indirect Costs:					
(1) Overhead % of "A"	3,547.41	36,506.92	41,923.19	7,254.16	89,231.68
(2) G&A % of "B+C-1	1,333.75	13,904.75	15,597.33	3,077.87	33,913.71
Total Indirect Cost	4,881.16	50,411.67	57,520.52	10,332.03	123,145.39
D-Total Direct & Ind Costs	$13,242.27	$141,471.27	$155,385.39	$29,384.45	$339,483.38
E-Non Fed Share of Expenses					(652.38)
F-Federal Share of Expenses					$338,831.00

	FINAL HHS NEG RATES		UI ACTUAL YEAR END	UI APPROVED DCAA PROV
RATES APPLIED:	1988	1989	1990	1991
Fringe Benefits	36.1%	37.7%	39.8170%	39.5%
Indirect Costs	50.4%	49.7%	50.0828%	50.4%
Gen & Adm Costs	11.2%	10.9%	11.1578%	11.7%

Refining the Geographic Practice Cost Index: Implications for Urban and Rural Areas

FINAL PROGRESS REPORT

Stephen Zuckerman, Project Director
Pete Welch, John Holahan, Avi Dor,
and Stephen Norton

Federal Project Officer: Sherry Terrell

Health Policy Center
The Urban Institute

HCFA Cooperative Agreement No. 17-C-99222

June 1992

We acknowledge the support provided by the Health Care Financing Administration. The total budget for all studies funded through this cooperative agreement was $338,831. The statements contained in this report are solely those of the authors and do not necessarily reflect the views or policies of the Health Care Financing Administration, the Urban Institute, or its sponsors. The grantee assumes responsibility for the accuracy and completeness of the information contained in this report.

PROJECT DESCRIPTION

The major goal of this cooperative agreement was to produce a set of Geographic Practice Cost Indices (GPCIs) that could be used as payment adjusters in the Medicare Fee Schedule. The basic idea is that practice cost differences are measured as a function of differences in professionals' median hourly earnings, median hourly earnings of nurses and other workers employed by physicians, apartment rents, and malpractice insurance premiums. Differences in these input prices were combined into a Laspeyres index, where the weights were equal to the share of practice revenues accounted for by each expense category.

The GPCIs derived in this study incorporated earnings data from the 20 percent sample of the 1980 census (an earlier study by the same research team was forced to rely on the 1 percent sample because of time constraints). These data improved the precision of the estimates and allowed us to estimate differentials based on where people worked as opposed to where they lived. We also used more recent input prices from the Department of Housing and Urban Development (for measuring variations in apartment rents) and from the HCFA Survey of Medical Malpractice Insurers as well as updated physician survey data to determine the relative importance of each factor.

In a follow-up study related to the geographic adjustment of Medicare fees, we also proposed a set of geographic areas that could be used as an alternative to the current payment localities. Our basic approach was to rely on statewide payment areas unless there was evidence to suggest that this would be inequitable. Since practice costs tend to be highest in areas of high population density, we focused on the need to allow for higher payments in the most densely-populated metropolitan areas. In addition, we considered an approach to defining areas that would have allowed for well-targeted bonus payments being provided to physicians practicing in the most isolated rural areas.

In a secondary phase of this cooperative agreement, we examined geographic variation in Medicare physician service volume and assignment rates to assess the impact of two specific Medicare policies. In one study, we considered the impact of the Hospital Prospective Payment System on the growth in Medicare expenditures between 1983 and 1985. In a second study, we explained the growth in assignment rates during the 1984-1985 fee freeze and the start of the formal Participation Agreements that provided incentives for physicians to accept all Medicare claims on an assigned basis. Both of these studies relied on multivariate regressions in their analysis.

The principle findings of this project are as follows:

o A number of GPCIs with reasonable face validity could be developed from available data sources. We concluded that the preferred alternative used earnings data based on where individuals worked for areas with substantial amounts of inter-area commuting. We found that an index that did not adjust for differences in the cost of physician time (i.e., professional earnings) would be inequitable for physicians in high-cost areas.

o A comparison of our preferred alternative to 1987 prevailing charges showed that the index explained almost one-half of the geographic variation in average charges; however, the strength of this relationship varied by procedure. The extent of unexplained variation implies that an adjustment based on this index will redistribute payments from currently high- to low-priced areas.

o Medicare's PPS led to a small reduction in physician expenditures. This resulted from a reduction in inpatient spending in of approximately 7 percent that was offset by a 5 percent increase on the outpatient side.

List of Papers and Memos

Welch, W. Pete, Stephen Zuckerman, and Gregory Pope, The Geographic Medicare Economic Index: Alternative Approaches, June 1989. (3839-01-01) PB89-216592

Pope, Gregory, Pete W. Welch, Stephen Zuckerman, and Mary G. Henderson, Does Cost of Practice Explain Geographic Differences in Medicare Fees, July 1989. (3839-01-02; Health Affairs, Fall 1989)

Zuckerman, Stephen, Pete W. Welch, and Gregory Pope, A Geographic Index of Physician Practice Costs, July 1989. (3839-01-03; Journal of Health Economics, June 1990)

Welch, W. Pete, Stephen Zuckerman, and Gregory Pope, Supplement to The Geographic Medicare Economic Index: Alternative Approaches, originally submitted June 1989, March 1990. (3839-01-04)

Holohan, John, Avi Dor, and Stephen Zuckerman, Growth in Medicare Physician Expenditures, 1983-1985: Was PPS a Factor?, May 1989. (3839-02-01; Journal of Health Politics, Policy and Law, Summer 1991)

Welch, W. Pete, Stephen Zuckerman, and Gregory Pope, Supplement to The Geographic Medicare Economic Index: Alternative Approaches, originally submitted June 1989, August 1989. (3839-01-05)

Welch, W. Pete, Stephen Zuckerman, and Gregory Pope, Supplement to The Geographic Medicare Economic Index: Alternative Approaches, originally submitted June 1989, September 1989. (3839-01-03)

Dor, Avi and John Holahan, Medicare Assignment Rates After the Physician Participation Program, Februrary 1990. (3839-02-02)

Zuckerman, Stephen and Stephen Norton, Refining the Malpractice Geographic Practice Cost Index, February 1991. (3839-03-02)

Welch, Pete W. and Stephen Zuckerman, Geographic Payment Areas for the Medicare Fee Schedule: Alternative Approaches, May 1991. (3839-03-02)

Welch, Pete W. and Stephen Zuckerman, An Assessment of the Physician Payment Review Commission's Proposed Geographic Areas for the Medicare Fee Schedule, May 1991. (3839-03-03)

Memos

Stephen Zuckerman to Sherry Terrell, "Geographic Medicare Economic Index

(GMEI) Values for Puerto Rico," 10-25-1989.

Stephen Zuckerman to Jesse Levy, "Progress Report and Interim Update of Malpractice GPCIs," 4-5-1990.

Stephen Zuckerman to Sherry Terrell, "Remapping of Model Fee Schedule Malpractice GPCI to Localities," 12-21-1990.

Stephen Zuckerman to Sherry Terrell, "Remapping of Model Fee Schedule MGPCI," 1-10-1991.

Stephen Zuckerman to Sherry Terrell, "Incorporating a Patient Compensation Fund (PCF) Adjustment in the Model Fee Schedule Malpractice GPCI," 1-22-1991.

Stephen Zuckerman and Stephen Norton to Sherry Terrell, "Documentation of the Computer Programs and Data Files Used to Create the Geographic Practice Cost Indices (GPCIs)," 5-20-1991.

EXECUTIVE SUMMARY

The major goal of this cooperative agreement was to produce a set of Geographic Practice Cost Indices (GPCIs) that could be used as payment adjusters in the Medicare Fee Schedule. We applied a methodology that had been derived by the same research team under an earlier HCFA-funded study. The basic idea is that practice cost differences are measured as a function of differences in professionals' median hourly earnings, median hourly earnings of nurses and other workers employed by physicians, apartment rents, and malpractice insurance premiums. The primary refinement of the GPCIs undertaken in this study was the incorporation of earnings data from the 20 percent sample of the 1980 census (the earlier study was forced to rely on the 1 percent sample because of time constraints). This data improved the precision of the estimates and allowed us to estimate differentials based on where people worked as opposed to where they lived. We also used more recent data for measuring the other index components and for determining the relative importance of each factor. In a follow-up study, we also proposed a set of geographic areas that could be used as the basis for the adjustment as an alternative to the current payment localities.

In a secondary phase of this study, we examined geographic variation in Medicare physician service volume and assignment rates to assess the impact of two specific Medicare policies. In one study, we considered the impact of the Hospital Prospective Payment System on the growth in Medicare expenditures between 1983 and 1985. In a second study, we explained the growth in assignment rates during the 1984-1985 fee freeze and the start of the formal Participation Agreements that provided incentives for physicians to accept all Medicare claims on an assigned basis.

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